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# *Latin America and the Caribbean* Bilateral Assistance

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*Following is a statement by John A. Bushnell, Acting Assistant Secretary for Inter-American Affairs, before the Subcommittee on Inter-American Affairs of the House Foreign Affairs Committee on March 23, 1981.*

I welcome this opportunity to appear before you and your colleagues to discuss our proposed bilateral foreign assistance for Latin America and the Caribbean. Our requests for bilateral assistance activities in Latin America for fiscal year 1982 total \$478 million are as follows:

- \$265 million of development assistance;
- \$120 million of economic support funds (ESF);
- \$81.5 million in foreign military sales credits (FMS); and
- \$11.1 million for the international military education and training program (IMET).

In a separate authorization there is about \$150 million in PL 480 food assistance for Latin America.

Four aspects of this request are worthy of particular notice.

**First**, it is carefully targeted by country and program to contribute directly to U.S. interests. It is not an assistance program to meet needs throughout Latin America, although development problems are urgent in almost every country in the region. We have proposed no assistance, except IMET training, to the larger countries in the area whose economies have sustained relatively good growth rates without continuing significant bilateral assistance. Absence from the budget

does not mean these countries are not important to us. Not only do they have a major impact on U.S. interests bilaterally, but they now play a major role as full partners with us in helping the smaller Latin American countries deal with their problems. Despite the increasing number of ways that our national interests require cooperation with our neighbors, our proposed assistance programs are but 7% of the Administration's worldwide foreign assistance request.

**Second**, the increase—22% over our requests for the current fiscal year—is concentrated in two categories: quick-disbursing ESF monies to help meet critical immediate needs in Central America and the Caribbean and modest security assistance mainly to the same countries.

**Third**, the FMS portion of our proposal includes a critical improvement: \$31 million of the \$81.5 million in proposed FMS credits are in the form of direct credits at concessionary rates for countries in whose security we have a manifest interest, yet whose weak economies and severe financial constraints prevent them from taking advantage of credits on standard terms.

**Fourth**, this budget may prove to depend for its full effectiveness on a request not earmarked specifically for Latin America. I refer to the Administration's request for a contingency fund of \$250 million in ESF. We hope not to have to use these funds in Latin America. However, our recent experiences, which have often involved painful and difficult reprogramings, and the

uncertain situations we face in several countries, suggest the wisdom of building this flexibility into a budget otherwise limited to essentials foreseeable now.

### The Need for Bilateral Aid

Before turning to particular programs, I would like to observe that for some years there has been a tendency to de-emphasize the need for U.S. bilateral assistance for Latin America. Our major contributions to regional development have been concentrated in multilateral institutions that play a key role in the maintenance of a healthy world economy. The richer countries of Latin American—Mexico, Brazil, and Argentina, for example—need and can obtain far greater resources from these institutions than we could provide bilaterally. Indeed, the reflows to us from countries where we no longer have programs would finance half of our total development assistance program for Latin America. The reflows of principal and interest from Brazil, Chile, and Colombia alone will provide over \$121 million in FY 1982.

Several of the relatively better-off countries are themselves beginning to provide significant assistance to their less fortunate hemispheric neighbors. The contribution of the new Mexican-Venezuelan facility and the similar financing by Trinidad will exceed \$1.5 billion of concessional assistance for Central America and the Caribbean over 3 years.

The greatest assistance that we can provide to Latin America, especially in these economically troubled times, is a healthy economy of our own to provide markets for their goods and thereby generate jobs for their workers. When considering Latin America in its entirety, trade, technology transfers, access to our capital markets, and other interfaces are more important than bilateral or multilateral assistance.

It is when we consider our ability to advance specific U.S. interests in particular countries that bilateral assistance programs become of critical importance. Over three-quarters of our total request for bilateral assistance in FY 1982 for Latin America and the Caribbean is concentrated on the most vulnerable countries in Central America and the Caribbean. Of these, El Salvador, Jamaica, and the island states of the eastern Caribbean are of the most concern.

### Central America

For Central America we are asking for \$114 million in bilateral development assistance and \$60 million in economic support funds in 1982. The \$114 million is nearly half of our total Latin America development assistance budget and represents a 33% increase over our 1981 request. The immediacy of the economic and strategic challenge in Central America creates a greater need for flexible and quick-disbursing ESF resources than in the past.

Because El Salvador has been most affected by outside interference, it has our largest proposed program. In 1980, El Salvador's output fell by over 8%, and it will likely drop further this year even with the assistance we and others are providing. Commercial credit for the privately owned manufacturing sector has almost disappeared. Agricultural production has been disrupted by the lack of credit and the insurgency. Without substantial assistance, these economic difficulties will undercut President Duarte's efforts to deal with the insurgency and bring stability to El Salvador. To help meet this emergency, two-thirds of the ESF we are requesting for Central America will go to El Salvador, \$40 million, and our proposal for development assistance there is the largest in the hemisphere at \$35 million.

But if the lion's share of our proposed assistance package for El Salvador is economic, it is also evident that externally armed guerrillas cannot be defeated with fertilizers alone. Since January 16, we have provided substantial military assistance through emergency grants and FMS reprogramming. We must follow through with enough of a military assistance package to help the government bring the insurgency to an end and thereby permit economic and social reforms to work and free elections to be held. To this end, the most significant increase in this year's security assistance budget request is a \$25 million FMS program for El Salvador, \$17 million of which would be in direct credits.

In Nicaragua we have quite different purposes. The private businessmen, small farmers, free labor unions, and many others who have held on for more than a year as a strong force against those who would establish a totalitarian state have earned our continued support. We would like to be able to provide it—so long as the Marxist-led government accepts a pluralist society and ends support from Nicaragua for the guer-

rillas in El Salvador. We are encouraged by signs that this support has been reduced. We have under review whether the steps Nicaragua is taking may justify a resumption of our current aid program. If so, we want to be in a position to respond in the future to the needs of the private sector which acts as a moderating force on the more extreme elements of the government.

For these reasons we have requested \$35 million in development assistance and ESF in the FY 1982 budget. So long as the outcome remains potentially favorable, the investment is a risk worth taking. Failure to budget for the outcome we desire in Nicaragua would be defeatism of the first order. But you can be sure we shall not deliver the proposed assistance to Nicaragua, this year or next, unless the government there maintains the pluralism and nonintervention called for by their own public policies.

Other countries of Central America are watching Nicaragua and El Salvador, knowing that their own security will be affected. We propose to maintain development assistance to Honduras, Guatemala, and Costa Rica at about FY 1981 levels. We propose to increase our FMS program for Honduras from \$5 million in FY 1981 to \$10 million, including \$4.5 million in direct credits. This will help Honduras protect itself against the dangers of foreign-supported insurgency and help its efforts to stop the use of Honduran territory to support guerrillas in El Salvador.

International military and education training programs for El Salvador and Honduras are also being increased to reinforce our FMS programs. Their purpose is to help train professionally competent military forces which can curb subversion, halt the infiltration of arms and men from abroad, and use U.S.-manufactured equipment effectively. We are proposing to continue in FY 1982 the small IMET program for Costa Rica that was established through reprogramming in FY 1981.

### Caribbean

Another priority in the FY 1982 budget is the area some call our "third border"—the Caribbean. These island states find themselves critically strained by stagnant agricultural sectors, the low output of industries, and unemployment rates of up to 35%, all contributing to discontent and political instability which invite Cuban adventurism. Nearly one-

third of total development assistance and one-half of the ESF we are requesting for the hemisphere is for the Caribbean, \$89 million and \$60 million respectively.

Our assistance efforts in the Caribbean have the following objectives:

- To strengthen friendly ties and cooperation among the islands, including joint security measures among the smallest island states to enable them to protect themselves, maintain law and order and preserve their territorial integrity and national sovereignty;
- To promote political and social institutions so as to strengthen democratic and constitutional processes; and
- To expand the productive sector to enable nations to increase their resource base and move toward economic self-sufficiency.

Approximately one-third of our aid to the Caribbean will go to regional institutions such as the Caribbean Development Bank. We will work closely with other major donors such as Canada and Western Europe, and we shall deal with the small Caribbean countries on a regional basis.

In Jamaica, years of weak economic management have taken a terrible toll—7 years of negative growth. Prime Minister Seaga's decisive electoral victory last October turned Jamaica away from policies which had led it close to bankruptcy. Seaga is determined to restore economic health to Jamaica by stimulating private investment and following sound economic policies, supported by the international financial institutions buttressed by bilateral programs. The outcome of this effort to lead Jamaica to recovery under Western-oriented principles is being followed closely throughout the Caribbean.

Our national interests require that we help Jamaica succeed. We are already engaged in a major program for Jamaica, linked to the massive assistance and economic program being negotiated between Jamaica and other international donors. We expect this program—a large part of which is aimed at reinvigorating the private sector—to turn the economy from negative to positive growth by the end of the year. The problem for FY 1982 is to maintain momentum. Earlier attempts to solve Jamaican problems have faltered short of success, making each new attempt more difficult.

We are asking for \$19 million in development assistance for FY 1982—twice our FY 1981 program—and \$40 million in ESF. Our bilateral programs

are largely focused on helping to revitalize Jamaica's private sector and undertake special programs in energy. They are designed to complement President Reagan's initiative for stimulating private foreign investment in Jamaica.

We are also requesting \$1 million in security assistance for Jamaica to continue the \$1.5 million FMS program we began with the new government this year through reprogramming. Direct credit is requested in view of Jamaica's already large foreign debt service burden over the next several years.

We intend to strengthen ties among the small island states of the eastern Caribbean through joint security measures as well as economic cooperation. The crucial problem is unemployment, particularly of youths just entering the labor force—the groups most susceptible to Cuban-inspired exploitation. We plan to target \$20 million in ESF toward stimulating employment generating enterprises. The FMS program of \$7.5 million is primarily for a regional Coast Guard program of the eastern Caribbean states.

Frankly, we are late in supporting this regional coast guard in which the British have taken a lead. We had hoped to respond in FY 1980 to Barbados' request for coastal patrol and army equipment, but the Barbados Government informed us it could not afford the standard FMS credit terms. For FY 1982, we will mix both guaranteed loans and direct credits to achieve an intermediate interest rate for Barbados. For the even smaller states in the area, even these terms are beyond their means; direct, concessional credits in FY 1982 are crucial to meeting their needs.

We are also proposing a major increase in FMS for the Dominican Republic to \$7 million including \$4 million of direct credit. We have been working with this democratic country on a program to introduce some modern equipment to begin replacing the U.S. arms acquired 20 to 30 years ago. A small \$1 million FMS program is proposed for the Bahamas which has recently established a defense force.

### South America

Our commitment to our close and important friends in South America is not lessened by the emphasis we are giving to the Caribbean Basin. The most serious South American development problems are in the Andean countries. Peru, Ecuador, and Bolivia all have mineral reserves which boost their long-

term prospects, but they are now trying to cope with chronic economic problems, including serious unemployment and rapid population growth. All have per capita incomes less than one-tenth of our own. These problems contribute to instability and stimulate narcotics trafficking.

The assistance we are proposing builds on existing bilateral and local efforts. Development assistance programs in FY 1982 total \$11.6 million for Ecuador and \$30 million for Peru. In Ecuador, President Roldos has initiated an extensive development program. In Peru, President Belaunde's plans focus on developing economically deprived areas and significantly expanding employment.

We have FMS programs for only three countries in South America—Colombia, Ecuador, and Peru. The programs for Peru and Ecuador, each of which is proposed at \$6 million, are modestly larger than the FY 1981 programs. The proposed \$12.7 million program for Colombia remains at the FY 1981 level. Small new IMET programs are also being proposed for Venezuela and Brazil, in keeping with the recommendation of the conference committee on the FY 1981 foreign assistance authorization bill which we fully support.

Finally, the Administration is recommending repeal of the provision in Section 620B of the Foreign Assistance Act, which prohibits all military sales and assistance to the Government of Argentina. Although we are proposing no assistance for Argentina in FY 1982, the strategic interests we share with Argentina require that we have the flexibility to consider sales of defense articles and services if that would be in our interest.

### Conclusion

In conclusion, I would like to stress again the importance of the proposed ESF contingency fund to our efforts to strengthen both security and development. Events in the past 2 years in this hemisphere, particularly in El Salvador and Jamaica, have tested our ability to move quickly with economic support funds to meet rapidly changing situations. With the cooperation of Congress, we have done relatively well but often by sacrificing important objectives elsewhere. The \$250 million ESF contingency fund this Administration is requesting is essential to enable us to respond more rapidly to critical situations where reprogrammings may prove insufficient or counterproductive.



Regarding security, the total FMS assistance we are requesting, \$81.5 million, is an increase of 27% over our FY 1981 budget. But more important than the increase is the tailoring of FMS terms to economic needs; \$31 million dollars of the FMS request is for the very important direct credits on concessional terms—at not less than 3% interest and up to 12 years repayment. Even so, the total FMS request for Latin America is but 2% of our worldwide FMS request proposal and falls substantially below the program levels for the region in the mid 1970s.

Finally, let me emphasize the importance of the international military education and training program. The number of Latin American students trained under IMET reached an all-time low in

FY 1980, less than half the average annual level of the 1970s. Thanks to the change that this subcommittee initiated in the FY 1981 legislation providing for incremental costing of IMET, we hope to turn that statistic around this year. We are requesting \$11.1 million in FY 1982, an increase of 22% over our 1981 request. Even with the ability to provide more training per IMET dollar, we need more dollars if we are to meet the training needs of the region and preserve the capacity to cooperate with our neighbors on shared security interest.

Compared to the stakes in Latin America, we are not asking for much in the way of assistance. Carefully targeted, the small amounts we are re-

questing can have a significant impact and provide concrete evidence of our commitment to the development and security of our closest neighbors. ■

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